

Guinness Atkinson

Asia Pacific Dividend Builder Fund

Managers Update – July 2016

Asian Markets

This month has been another turbulent one for financial markets as the UK voted to withdraw from the European Union. Unusually, in such conditions, the Asian region stood out as the best performing region, as measured by the MSCI AC Pacific ex Japan Index, up 2.26% in USD terms. European stocks by contrast, as measured by MSCI Europe Index, fell 4.77% and World markets overall as measured by MSCI AC World Index fell 0.56% in USD terms .

We believe that the arguments we have been making for a long time – the economies in the region are stable, the stocks are cheap – is finally being recognised by asset allocators. By our calculations, the MSCI AC Pacific ex Japan Index is at a valuation discount of 34% to world equities as measured by the MSCI AC World Index. Our portfolio of high quality companies is trading on an estimated price/earnings (P/E) multiple that is 20% below Asia.

There are several possible reasons for Asia's outperformance. Some may increasingly view the region as a safe haven in this environment. Certainly the recent strength of the Yen suggests that investors are prepared to park money alongside other traditional safe havens like Switzerland. If perceptions are changing, this is noteworthy, as Asia has traditionally sold-off first at the sign of global macro troubles. The region has also lagged significantly over the past five years, rising only 0.75% on an annualized basis versus world equities that have risen 5.98%, and the S&P 500 Index which has risen 12.06% over this period.

The other supportive factor is valuations. At the end of June, on a P/E basis Asia was at a 30% discount to world equities. There is also the potential for earnings growth to start to come through, which would make the region more attractive to investors.

If this theory is correct, there are therefore multiple reasons for the region to stage a catch up:

- Macroeconomic stability
- Valuation / attractive yield
- Earnings growth

Our process emphasises investing in quality companies: those businesses that have achieved returns on invested capital persistently above the cost of capital. There are only 1,522 companies globally that have achieved the persistency of returns we seek (with a market cap above \$500m). Of these, 368 are within the wider Asia region.

The leading markets in Asia over the month were Indonesia, Taiwan, Malaysia, South Korea, Singapore and the Philippines. China and India both rose but only modestly in line with their comparatively weak performance (in USD terms) this year. Thailand was notably weak in June but it has been the best performing regional market this year. Technology, materials, telecom services, utilities, energy and consumer staples were leading sectors.

Currencies in the region have been a source of potential concern since rising macro-economic concerns usually give rise to strength in currencies that are perceived to be safer, primarily the US dollar but also the Yen and the Swiss Franc. In the event, regional currencies have mostly been stronger. On average, weighted by size of economy, currencies rose 2.3% against the dollar in June and are 4% higher in 2016.

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The Yen has been the most striking, up 17% against the dollar this year – a fact that points to the lack of success in Japanese efforts to reflate the economy and increases therefore, the likelihood of a direct government response to try and save the ‘Abenomics’ programme.

Performance

In June the Fund rose 4.63% in USD terms and outperformed the benchmark by 2.36%. For the first six months of the year, the fund rose 6.59% and is 3.88% ahead of the benchmark.

as of 6/30/16	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/31/06)
Asia Pacific Dividend Builder Fund	6.59%	-7.65%	2.73%	2.69%	5.50%	4.58%
MSCI AC Pacific ex Japan	2.72%	-9.97%	1.85%	0.74%	6.17%	6.12%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
 Expense Ratio: 1.10% (net); 3.87% (gross)

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/GIF_performance or call (800) 915-6566. Performance data does not reflect the 2% redemption fee for shares held less than 30 days and, if deducted the fee would reduce the performance noted. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 1.10% through June 30, 2017. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 1.10% expense cap.

While investors have been focused on macro events, the performance of the portfolio is ultimately down to that of individual stocks.

In June, the performance was spread widely across geographies and sectors. The top 10 performing stocks were: Relo Group, Tisco Financial, Link REIT, Novatek Microelectronics, Industrial & Commercial Bank of China, KT&G Tobacco, Ascendas REIT, Largan Precision, Digi.com, and TSMC, all of which rose between 9% and 28% in USD terms. There was no single macro theme among the top performers.

The worst performing stock in the portfolio was Henderson Group, which fell 29% in USD terms following the Brexit vote. We took advantage of the price weakness to top up the position, in accordance with our equal-weighting portfolio discipline.

Outlook

The economic impact of Brexit so far is likely to be concentrated on the UK economy, but we will discover if it will have a wider impact in the coming months. The market jitters we have seen so far

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suggest that it has again focused investors' minds on areas of weakness in the global economy that existed prior to the election.

In contrast, we believe China's economic data paints a relatively healthy picture. Month by month figures appear to be stable. The area where we have seen significant improvement is in the Producer Price Index (PPI), which has begun to tick up. Producer prices had been falling for the past four years but the industrial environment now appears to be improving.

We believe a recovery in industrial pricing power will improve margins in China's largest sectors, potentially leading to the end of earnings contractions. Improvement there will allow earnings growth in the more dynamic sectors to start to shine through. If this pattern holds, we could see the beginning of more positive sentiment towards China, and to the region as a whole.

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read it carefully before investing.

Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. Non-diversified funds concentrate assets in fewer holdings than diversified funds. Therefore, non-diversified funds are more exposed to individual stock volatility than diversified funds. Investments in debt securities typically decrease in value when interest rates rise, which can be greater for longer-term debt securities. Investments in derivatives involve risks different from, and in certain cases, greater than the risks presented by traditional investments. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. Funds concentrated in a specific sector or geographic region may be subject to more volatility than a more diversified investment. Investments focused in a single geographic region may be exposed to greater risk than investments diversified among various geographies. Investments focused on the energy sector may be exposed to greater risk than an investments diversified among various sectors.

Opinions expressed are subject to change, are not a guarantee and should not be considered investment advice.

Top Fund Holdings as of 6/30/16

1	Relo Holdings Inc	3.14%
2	St Shine Optical Co Ltd	3.09%
3	Largan Precision Co Ltd	3.07%
4	JB Hi-Fi Ltd	2.97%
5	Li & Fung Ltd	2.95%
6	Link REIT/The	2.92%
7	DBS Group Holdings	2.91%
8	Industrial & Commercial Bank of China Ltd-H Shares	2.89%
9	Catcher Technology Co Ltd	2.88%
10	Taiwan Semiconductor Manufacturing Co Ltd	2.86%

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

MSCI AC Pacific Ex-Japan Index is a market capitalization weighted index that monitors the performance of stocks from the Pacific regions, excluding Japan.

MSCI Europe Index is a market capitalization weighted index made up of common stocks of companies located in 16 European countries.

MSCI AC World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

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The Producer Price Index (PPI) is a weighted index of prices measured at the wholesale, or producer level.

One cannot invest directly in an index.

Price-to-Earnings Ratio (P/E) is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share.

Macroeconomic stability can be measured by the volatility of key indicators such as consumer price inflation, GDP growth, unemployment rates, changes in government finances, current account balances, interest rates and currency exchange rates.

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